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# External audit report 2016/17

## Police and Crime Commissioner for Lincolnshire & Chief Constable for Lincolnshire

July 2017

# Summary for Joint Independent Audit Committee

**Financial statements**

This document summarises the key findings in relation to our 2016-17 external audit at the Police and Crime Commissioner for Lincolnshire ('the PCC') and the Chief Constable for Lincolnshire ('the CC').

This report focusses on our on-site work which was completed in June and July 2017 on the PCC and CC's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 4 – 8.

**Subject to the necessary assurances being received from the auditors of the LGPS pension scheme and the additional work required in confirming the accuracy of audit changes and additional disclosures we anticipate issuing unqualified audit opinions on the PCC and CC's financial statements before the deadline of 30 September.**

We have identified three audit adjustments impacting the primary statements with a total value of £13 million, a further three errors in disclosure with a total value of £140 million and a number of presentational issues. See page 9 for details.

Based on our work, we have raised 3 recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by 18 August 2017.

**Use of resources**

We have completed our risk-based work to consider whether in all significant respects the PCC and CC have proper arrangements to ensure they have taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the PCC and CC have made proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

**We therefore anticipate issuing unqualified value for money opinions.**

See further details on page 13.

**Acknowledgements**

We would like to take this opportunity to thank officers for their continuing help and co-operation throughout our audit work.

**We ask the Joint Independent Audit Committee to note this report.**

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This report is addressed to the PCC and CC and has been prepared for the sole use of the PCC and CC. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

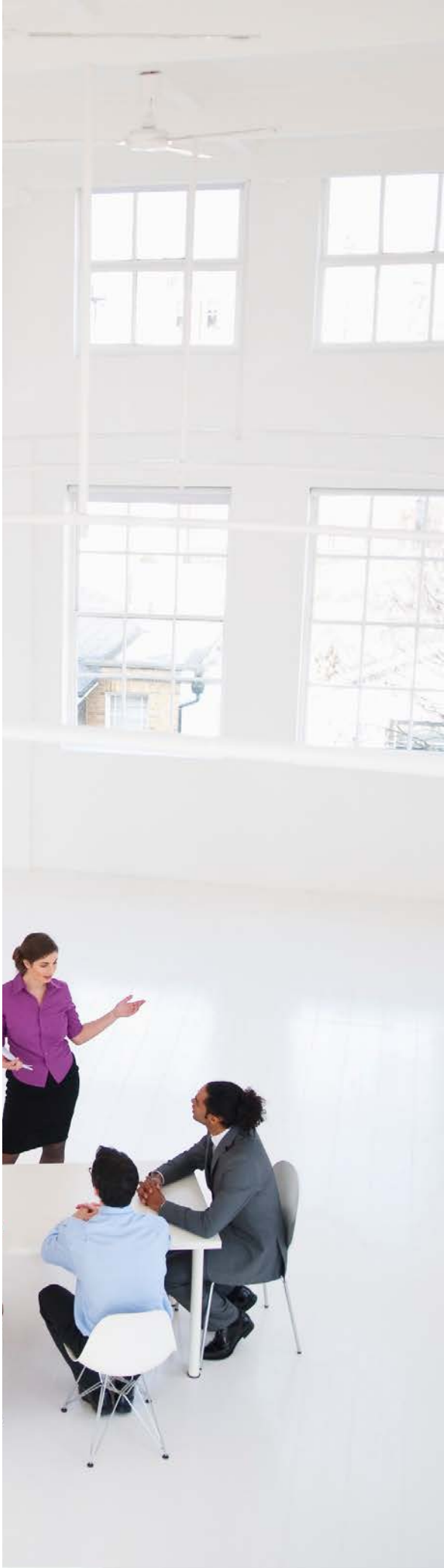
We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the PCC and CC, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

# Financial Statements

We anticipate issuing an unqualified audit opinion on the PCC and CC's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the PCC and CC have reported a group deficit of £29m. Following accounting/funding basis adjustments and reserve transfers there has been no impact on the General Fund balance.



# Significant audit risks

## Our *External Audit Plan 2016/17* sets out our assessment of the PCC and CC's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

| Significant audit risks | Work performed |
|---|---|
| **1. Significant changes in the pension liability due to LGPS Triennial Valuation** | **Why is this a risk?**<br>During the year, the Local Government Pension Scheme for Lincolnshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The PCC and CC's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out his triennial valuation.<br>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lincolnshire County Council, who administer the Pension Fund.<br>**Our work to address this risk**<br>We have reviewed the process used to submit payroll data to the Pension Fund and tested the year-end submission process and other year-end controls, including the appointment of an independent actuary to confirm the appropriateness of the actuarial assumptions used by your actuary. We found no issues to note.<br>We have also substantively agreed the total figures submitted to the actuary to the ledger and again identified no issues in relation to the LGPS scheme. Our corresponding work in respect of the Police Pension Scheme however identified a single issue in respect of the figure reported for employers contributions as at 31 March 2017, resulting in the requirement to obtain a revised actuarial report for this scheme.<br>We have engaged with your Pension Fund auditors to gain assurance over the pension figures. |

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# Considerations required by professional standards

## Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

## Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

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# Other areas of audit focus

We identified a single area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

| Other areas of audit focus | Our work to address the areas |
|---|---|
| **1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS** | **Background**<br>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):<br>— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and<br>— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.<br>The PCC and CC were required to make a retrospective restatement of their CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.<br>**What we have done**<br>We had originally planned to carry out this work during our interim visit in order for us to feed back any findings ahead of our final audit. We were unable to do this due to staffing constraints at the time.<br>For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the PCC and CC's general ledger. As part of our work we have formally considered the re-categorisation of the Strategic Partner payments from the CC's accounts to the PCC's accounts.<br>We identified a single issue to note in respect of the inclusion of the Home Office top-up grant as an adjusting item. |

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# Proposed opinion and audit differences

## Subject to the necessary assurances being received from the auditors of the LGPS pension scheme and the additional work required in confirming the accuracy of audit changes and additional disclosures, we anticipate issuing an unqualified audit opinion on the PCC and CC's 2016/17 financial statements by 18 August 2017.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3 for more information on materiality) level for this year's audit was set at £2.5 million. Audit differences below £0.125 million are not considered significant.

Our audit identified a total of six significant audit differences, which we set out in Appendix 2. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the group's movements on the General Fund for the year and balance sheet as at 31 March 2017.

Overall there was no impact on the General Fund as a result of audit adjustments.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ('the Code'). We understand that the PCC and CC will be addressing these where significant.

**Movements on the General Fund 2016/17**

| £m | Pre-audit | Post-audit | *Ref*[1] |
|---|---|---|---|
| Deficit on the provision of services | (38.0) | (28.7) | *1, 2, 3* |
| Adjustments between accounting basis and funding basis under Regulations | 38.3 | 29.0 | *3* |
| Transfers [to/from] earmarked reserves | (0.3) | (0.3) | |
| **Increase in General Fund** | **0.0** | **0.0** | |

**Balance sheet as at 31 March 2017**

| £m | Pre-audit | Post-audit | *Ref*[1] |
|---|---|---|---|
| Property, plant and equipment | 31.6 | 31.6 | |
| Other long term assets | 5.2 | 5.2 | |
| Current assets | 27.8 | 27.8 | |
| Current liabilities | (21.2) | (21.2) | |
| Long term liabilities | (1,362.0) | (1,349.5) | 3 |
| **Net worth** | **(1,318.6)** | **(1,306.1)** | |
| General Fund | (5.7) | (5.7) | |
| Other usable reserves | (13.9) | (13.9) | |
| Unusable reserves | 1,338.2 | 1,325.7 | 3 |
| **Total reserves** | **1,318.6** | **1,306.1** | |

[1] See referenced adjustments in Appendix 2.

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## Annual governance statement

We have reviewed the PCC and CC's 2016/17 Annual Governance Statements and confirmed that:

— they comply with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;

and

— they are not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

## Narrative report

We have reviewed the PCC and CC's 2016/17 narrative reports and have confirmed that they are materially consistent with the financial statements and our understanding of both the PCC and CC.

We have noted that the narrative reports do not fully comply with the Code requirements in that the use of both financial and non-financial performance indicators is expected.

We have recommended that further work is undertaken in future years to ensure that the narrative reports are in line with the Code and best practice as set out by the Accounting Standards Board.

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# Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the PCC and CC's accounting practices and financial reporting.

We also assessed the PCC and CC's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

### Accounting practices and financial reporting

The PCC and CC have recognised the additional pressures which the earlier closedown in 2017/18 will bring, and have used 2016/17 as a trial run in achieving this deadline. We have been engaging with the officers of the PCC and CC in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the PCC and CC's accounting practices appropriate.

### Completeness of draft accounts

We received a set of draft accounts on 19 June 2017, which was in advance of the statutory deadline. Our work has subsequently identified that these were missing several of the required 'fair value' disclosures in accordance with the requirements of the Code.

### Quality of supporting working papers

We issued our main *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in February 2017, which outlines our documentation request. This helps the PCC and CC to provide audit evidence in line with our expectations. This was further supplemented by a specific pensions request in April 2017 to address the significant risk in relation to the triennial revaluation.

We found that the improvements in quality introduced in the previous year had continued to be delivered in the current year, with the quality of audit evidence provided meeting our expectations as set out in our Accounts Audit Protocol 2016/17.

Due to an administrative oversight a delay was noted in the delivery of the evidence to support our pensions work. This has caused a delay in the work being undertaken by our appointed actuary and specialist pensions team.

### Response to audit queries

On average, Officers dealt with our audit queries within two working days of inquiry, in line with our expectations.

### Prior year recommendations

As part of our audit we have specifically followed up the PCC and CC's progress in addressing the recommendations in last years ISA 260 report.

The PCC and CC have implemented all of the recommendations in our ISA 260 Report 2015/16.

### Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the PCC and CC's control framework.

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# Completion

## We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the PCC and CC's 2016/17 financial statements.

## Before we can issue our opinion we require a signed management representation letter.

## Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided templates to the Deputy Chief Finance Officer for presentation to the PCC and CC. We require signed copies of your management representations before we issue our audit opinion.

As part of this process we are seeking specific management representations in respect of the assurances you have gained over the completeness and accuracy of the figures consolidated for the regional collaboration.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the PCC and CC's 2016/17 financial statements.

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Section two

# Value for money

Our 2016/17 VFM conclusion considers whether the PCC and CC had proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

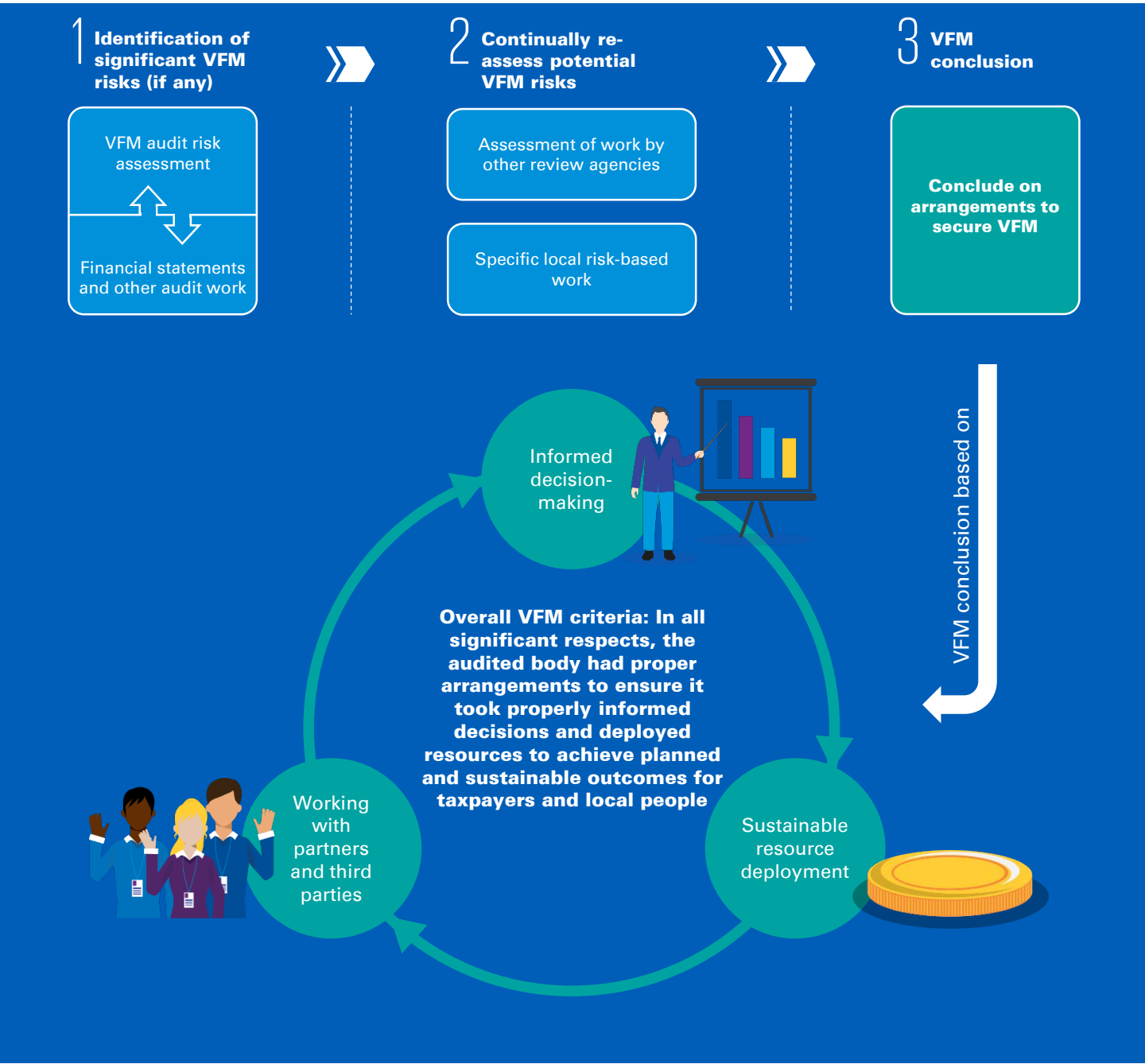
# VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the PCC and CC 'have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the PCC and CC had proper arrangements to ensure they took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



## The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

**VFM assessment summary**

| VFM risk | Informed decision-making | Sustainable resource deployment | Working with partners and third parties |
|---|---|---|---|
| **1. Financial resilience in the local and national economy** | n/a | ✓ | n/a |
| **Overall summary** | n/a | ✓ | n/a |

In consideration of the above, we have concluded that in 2016/17, the PCC and CC have made proper arrangements to ensure they took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

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# Significant VFM risks

## We have identified a single significant VFM risk. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the PCC and CC's current arrangements in relation to these risk areas are adequate.

| Significant VFM risks | Work performed |
|---|---|
| **1. Financial resilience and delivery of the medium term financial plan** | **Why is this a risk?**<br>Lincolnshire Police along with all forces have significant budget savings to deliver over the coming years and plans are in place to achieve these savings.<br>The PCC needs to manage its savings plans to secure longer term financial and operational sustainability.<br>**Summary of our work**<br>All police bodies have been affected by reductions in central funding and the PCC and CC have to date responded well to these pressures, with levels of service provision being maintained whilst demonstrating good performance in the identification and delivery of savings. Against this backdrop the PCC has continued to maintain a prudent level of general reserves.<br>However, the PCC has constructed its Medium Term Financial Strategy on the key assumption of receiving additional central funding from the Home Office as part of its grant settlement from 2018/19 onwards. Since the options for further savings without operational impact are minimal, this is recognised as a relatively high risk strategy for achieving financial balance.<br>We have assessed the arrangements put in place by the PCC and CC to maintain its record of meeting efficiency savings to address national funding changes, by relying on our accounts audit work where relevant, underpinned by a review of the PCC and CC's budget setting process, financial management processes, and discussions with the senior management team. |

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# Appendices

**Appendix 1**

# Key issues and recommendations

Our audit work on the PCC and CC's 2016/17 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The PCC and CC should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

**High priority** — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

**Medium priority** — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

**Low priority** — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

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High priority

### 1. Narrative Report compliance

Our review of the PCC and CC's Chief Finance Officer's Narrative Reports has identified a number of areas were improvements could be made in order to ensure full compliance with CIPFA's Code of Practice, in particular:

- Providing full clarity over the financial performance indicators detailed within the report especially in relation to the inclusion or exclusion of figures in respect of the regional balances; and
- Inclusion of non-financial performance indicators as relevant to the performance of the authority, including those that the PCC and CC judges as being central in assessing progress against its strategic objectives, or monitoring its risks.

**Recommendation**

The PCC and CC should ensure that its Narrative Reports fully comply with CIPFA's Code of Practice and that clarity is provided over any figures reported within the Narrative Report and the financial statements.

**Management Response**

Accepted.

In respect of the first point we will review the narrative for 2016/17 (and again next year) and ensure there is clarity on the inclusion or exclusion of regional balances.

In respect of the second point on non-financial performance information, we will review and incorporate this into the Statement of Accounts for 2017/18.

**Owner**

PCC CFO/CC CFO

**Deadline**

2016/17 and 2017/18 Statement of Accounts

Medium priority

### 2. Review of pensions data submitted to the actuary

Our testing of the PCC and CC's processes over the provision of data to the actuary highlighted an error in the information submitted in respect of the Police Pension Scheme.

The impact of this has been that a revised actuarial report was required causing a number of material late adjustments to a considerable number of account entries and balances.

**Recommendation**

The PCC and CC should ensure that an appropriate level of review is put in place over the data being submitted to the actuary to ensure its completeness and accuracy.

**Management Response**

Accepted

**Owner**

Head of Finance

**Deadline**

2017/18 Statement of Accounts

Medium priority

### 3. Review of fair value disclosures

Our testing identified that a number of the required 'fair value' disclosures required by CIPFA's Code of Practice, including the accounting policy and detailed measurement bases, had not been made within the Statement of Accounts. These omissions should have been identified from the correct completion of CIPFA's Code Disclosure Checklist.

**Recommendation**

The PCC and CC should ensure that sufficient time and resource is devoted to the accurate completion of CIPFA's Code Disclosure Checklist, with any uncertainties over answers being investigated more thoroughly.

**Management Response**

Accepted

Review of the Code of Practice and disclosure checklist is a standard part of the closedown procedure however; we will consider undertaking an independent review of the checklist in future.

**Owner**

Head of Finance

**Deadline**

2017/18 Statement of Accounts

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**Appendix 2**

# Audit differences

## We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the PCC and CC). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

### Adjusted audit differences impacting the primary statements

The following table sets out the significant audit differences impacting on the primary statements identified by our audit of the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire's financial statements for the year ended 31 March 2017, at a group level. Similar adjustments are also required in respect of the individual entities accounts. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

**Table 1: Adjusted audit differences impacting the primary statements (£'000)**

| No. | Income and expenditure statement | Movement in reserves statement | Assets | Liabilities | Reserves | Basis of audit difference |
|---|---|---|---|---|---|---|
| 1 | Dr Gross income - CC 171<br>Cr Gross income – Taxation and non-specific grants (171) | | | | | A capital grant in respect of EMSOU was incorrectly included within the cost of services<br><br>This error also required amendments to Notes 13 and 49 within the group statements |
| 2 | Dr Gross expenditure – PCC 698<br>Cr Gross expenditure – CC (698) | | | | | The amount of costs attributable to the PCC in respect of capital financing were incorrectly extracted from the supporting working papers |
| 3 | Cr Gross expenditure – CC (9,100)<br>– Financing and investment I&E (200)<br>– Actuarial losses (3,200) | Dr Other comprehensive I&E 3,200<br>Dr Adjustments between accounting and funding basis 9,300 | | Dr Pension liabilities 12,500 | Cr Pensions reserve (12,500) | Data submitted to the actuary found to be inaccurate<br><br>This error also required amendments to the cash flow and Notes 7, 9, 12, 34, 37 and 51 within the group statements |
| | **Cr (12,500)** | **Dr 12,500** | | **Dr 12,500** | **Cr (12,500)** | **Total impact of adjustments** |

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## Adjusted numerical audit differences impacting disclosure notes

The following table sets out the significant numerical audit differences impacting on the disclosure notes identified by our audit of the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire's financial statements for the year ended 31 March 2017, at a group level. Similar adjustments are also required in respect of the individual entities accounts. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

**Table 2: Adjusted audit differences impacting disclosure notes (£'000)**

| No. | Disclosure Note | £'000 | Basis of audit difference |
|---|---|---|---|
| 4 | 51 – Retirement benefits | 92,800 | Failure to correctly report actuarial movements correctly between the headings of 'financial assumptions' and 'other experience' |
| | | 22,600 | Incorrect reporting of 'employers contributions' as 'retirement benefits payable' |
| 5 | 53 – Financial instruments | 2,233 | Incorrect calculation of the carrying value and fair value of 'creditors' |
| 6 | 7 – Expenditure and funding analysis | 22,008 | Incorrect inclusion of the Home Office top-up grant as an adjustment within the analysis |
| | | **139,741** | **Total value of adjustments** |

## Disclosure errors

In addition to the above numerical errors that relate directly to the primary statements or their related notes, our audit also identified a number of errors in relation to other disclosures. These have been discussed with management and again it is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this:

- Note 1 Accounting policies: A number of inconsistencies and omissions were noted between the Code requirements and those disclosed by the PCC and CC;
- Note 17 Investment properties: The required fair value disclosures in respect of these assets were not disclosed;
- Note 47 Termination benefits: The table of the CC's transactions was incorrectly included rather than that for the Group;
- Note 51 Retirement benefits: A number of inconsistencies were noted between the IAS19 reports and the PCC and CC's disclosures;
- Note 53 Financial instruments: A number of inconsistencies and omissions were noted between the Code requirements and the PCC and CC's disclosures most notably the range of interest rates and the fair value disclosures in relation to PWLB debt.

## Unadjusted audit differences

We confirm that there are no uncorrected misstatements, other than those that we believe are clearly trivial.

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**Appendix 3**

# Materiality and reporting of audit differences

## The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in January 2017.

Materiality for the PCC and CC's accounts was set at £2.5 million which equates to around 1.7 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the PCC and CC

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the PCC and CC any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

*ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the PCC and CC, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.125 million.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the PCC and CC to assist it in fulfilling their governance responsibilities.

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**Appendix 4**

# Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the PCC and CC.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Auditor declaration

In relation to the audit of the financial statements of the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and the Police and Crime Commissioner for Lincolnshire and the Chief Constable for Lincolnshire, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

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**Appendix 5**

# Audit fees

## Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audits are:

— Police and Crime Commissioner: **£29,291** plus VAT *(£29,291 in 2015/16)*; and

— Chief Constable: **£15,000** plus VAT *(£15,000 in 2015/16).*

However, we will be proposing an additional fee due to additional work undertaken in relation to the CIES restatement, the triennial pension revaluation and formal consideration of the change in accounting treatment of the strategic partnership costs. We will discuss these fees with the Chief Finance Officers and this will also be subject to PSAA determination/approval.

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